

BILL # HB 2109

TITLE: ~~CORP; contribution rate~~ (Now: contribution rate; CORP)

SPONSOR: Huppenthal

STATUS: House Engrossed

REQUESTED BY: Senate

PREPARED BY: Timothy Sweeney

FISCAL ANALYSIS

Description

HB 2109 makes changes to both the employee and employer contribution rates for the Corrections Officer Retirement Plan (CORP). First, this legislation raises the minimum employer contribution rate from 2% to 4%. Next, HB 2109 would permanently reduce the employee contribution rate (currently set in statute at 8.5%) on a point by point basis if the aggregate employer contribution falls below 4% (prior to the effect of the minimum contribution requirement). Finally, this legislation establishes a minimum employee contribution level of 7.65%.

Estimated Impact

This legislation could have an impact on the employer contribution rates in two different ways. First, by raising the minimum employer from 2% to 4%, it increases costs for employers with rates currently less than 4%, and it eliminates potential future savings should an employer's rate drop below 4%. Both participating state employers (Arizona Department of Corrections (ADC) and the Department of Juvenile Corrections (DJC)) currently have contribution rates above 4%, therefore neither state employer is expected to see any short term cost increase resulting from this provision.

In addition to raising the employer contribution rate floor, HB 2109 could lead to reductions in the employee contribution rate, which would result in a corresponding increase in the contribution rates for all employers. The conditions generating the employee rate reduction, and thus the employer rate increase, are not likely to be met in FY 2006.

The JLBC Staff estimates that this legislation would not have a cost to either participating state employer through FY 2006, but could potentially lead to cost increases in future years. The JLBC Staff is unable to estimate if or when this legislation may lead to employer contribution rate increases.

Analysis

Currently, there are 15 participating employers in the CORP system, including 2 state agencies, 11 counties (one county has 2 employers), and 1 town. Each participating employer has a contribution rate calculated specifically for that employer, and of these 15 employers, 3 have contribution rates below the current 2% floor, and 6 more have contribution rates between 2% and 4%. By raising the minimum employer contribution from 2% to 4%, this legislation would increase costs to participating employers whose contribution rate is otherwise less than 4%. Both state agencies (ADC and DJC) currently have employer contribution rates above 4%, however, and these rates are not likely to decrease from FY 2005 to FY 2006. Therefore, the provision increasing the minimum employer contribution from 2% to 4% is not likely to increase costs in the short term to either of the state agencies participating in CORP.

In addition to raising the minimum employer contribution, HB 2109 establishes conditions that would lead to reduction in the employee contribution. Currently, the CORP employee contribution is statutorily set at 8.5%. This legislation, however, establishes that if the aggregate employer contribution (before taking any minimum employer contribution into account) falls below 4%, then the employee contribution is reduced by a corresponding amount. If the employee contribution rate declines, each employer's contribution rate would need to increase to make up for the decline. To the extent that this increase may raise an employer's required contribution rate above the 4% floor, it could produce a net cost increase for some employers. The aggregate employer contribution rate is not likely to decline below 4% in FY 2006, though it is possible for the aggregate rate to decline below 4% in future years.

Local Government Impact

As mentioned above, each employer has their contribution rates calculated separately, and several counties have employer rates below 4% for FY 2005. By raising the minimum employer contribution rate from 2% to 4%, HB 2109 will increase employer contribution rates for several participating counties. The table below shows the 9 employers with estimated FY 2005 contribution rates below 4%. While we are unable to predict what their contribution rate would be in FY 2006 without this legislation, the table below details potential cost increases compared to FY 2005 rates, for these 9 employers.

Employer	FY 05 Employer Rate (with current 2% floor)	Rate Increase to Reach 4% Floor	Est. Current Payroll	Est. Cost of Higher Floor
Apache County	3.31%	0.69%	\$599,600	\$4,100
Cochise County	3.90%	0.10%	1,716,600	1,700
Coconino County	3.28%	0.72%	2,371,600	17,100
Maricopa County	3.18%	0.82%	36,431,100	298,700
Mohave County	2.00%	2.00%	1,870,700	37,400
Navajo County	2.06%	1.94%	899,400	17,400
Pinal County	3.23%	0.77%	310,900	2,400
Santa Cruz County	2.00%	2.00%	395,200	7,900
Yuma County	2.00%	2.00%	4,371,000	87,400

In addition to the increases resulting from the higher minimum employer contribution, the provision of this legislation allowing for reductions in the employee contribution could lead to increases in contribution rates for county employers in future years. As mentioned above, if the aggregate employer contribution rate drops below 4%, the employee rate would decline by a corresponding amount. If this occurs, all employers would see an increase in their required contribution rate. For employers with rates below the 4% floor, potential increases may not have a fiscal impact it does not raise the rate above the 4% floor.